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Operating and Capital Budgets: Processes and Structures

May 2, 2006
Higher Education Coordinating
Board - Fiscal Committee



Operating Budget: Process and Structure



What is the Operating Budget?

- Appropriations for the general day-to-day operating expenses of state agencies, colleges and universities, and public schools
- Half of all funding is from the state general fund; remainder from federal and other funding sources
- Operating budget is incremental



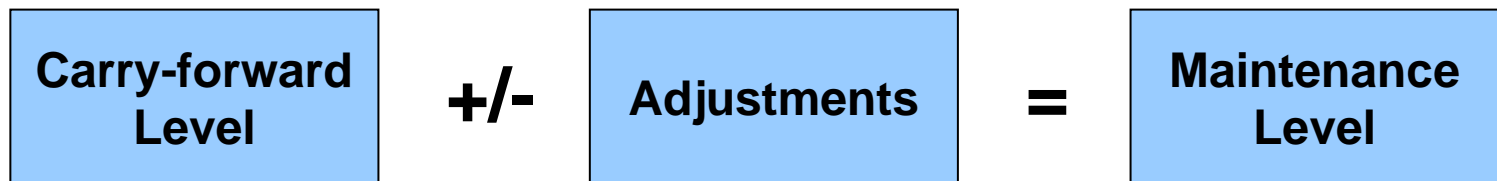
Budget Structure: Carry-forward Level

- Underlying or base budget**
- Biennialized cost of decisions already recognized in appropriations by the Legislature**



Budget Structure: Maintenance Level

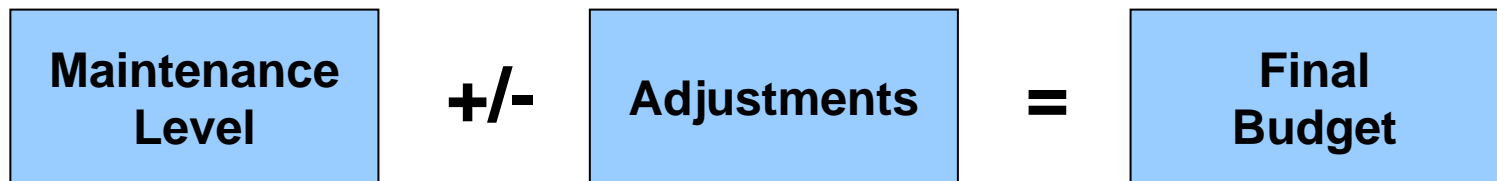
- Cost of providing currently authorized services in the new budget period
- Includes ongoing costs for mandatory programs, such as Medicaid caseload/K-12 enrollment





Budget Structure: Policy Level

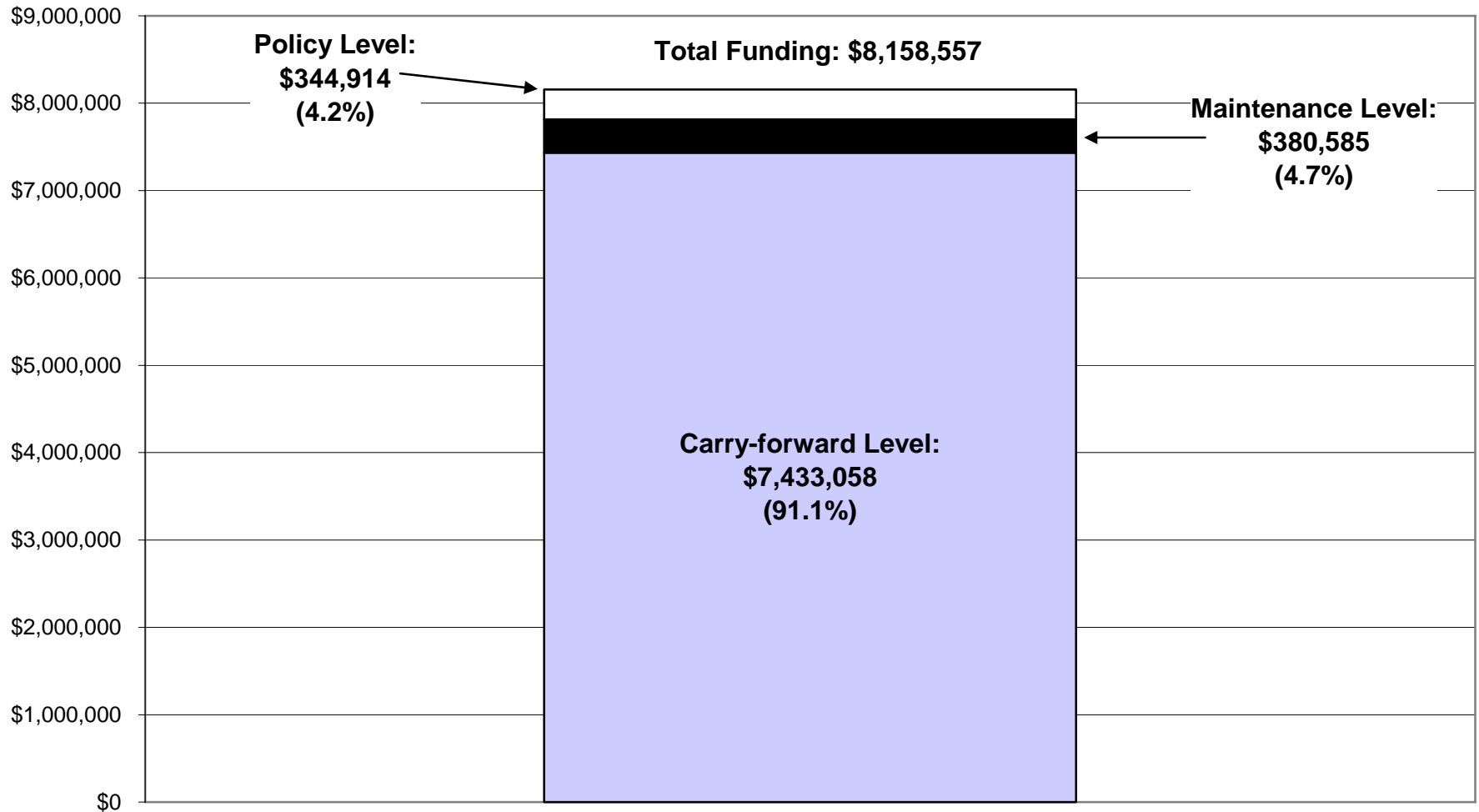
- Adds funding for new or expanded services/programs
- Reduces funding for existing services/programs





2005-07 Higher Education Budget: Total Funds

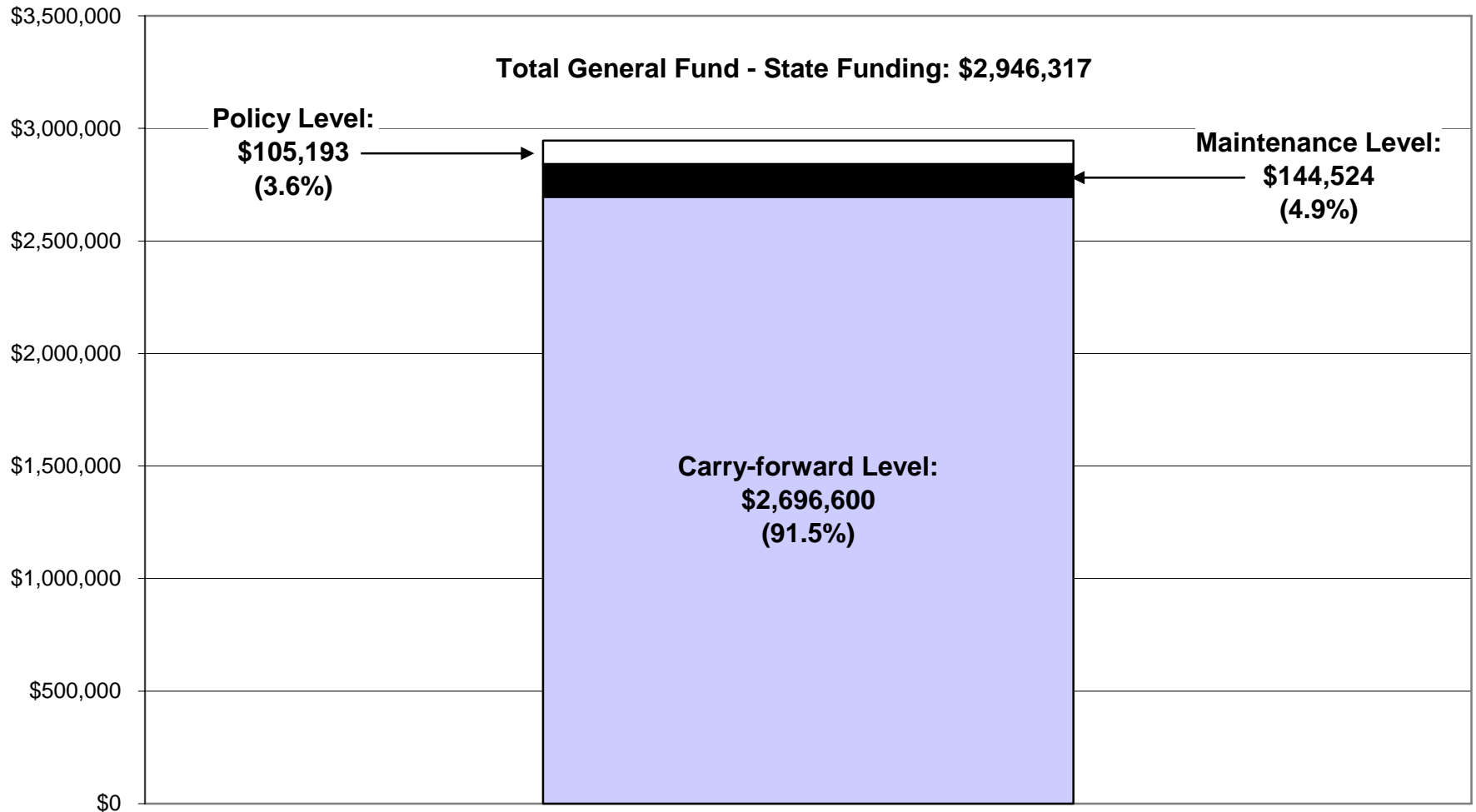
(dollars in thousands)





2005-07 Higher Education Budget: General Fund-State

(dollars in thousands)





Higher Education Budget



Higher Education Budget

- **2 primary sources of funding for public higher education**
 - Governmental appropriations directly to the institutions
 - i.e., General Fund-State, Education Legacy Trust Account, etc.
 - Tuition from students
 - Tuition (all or part) can be paid either directly by the student or, for students who qualify, partly by financial aid



Higher Education Funding Sources

- **General Fund**
 - State (all)
 - Federal (HECB)
 - Private/Local (UW)
- **Accident Account (UW)**
- **Administrative Contingency Account (SBCTC)**



Higher Education Funding Sources (cont.)

- Advanced College Tuition Payment Program Account (HECB)
- Education Legacy Trust Account (all)
- Employment Training Finance Account (SBCTC)
- Energy Account (WSU)



Higher Education Funding Sources (cont.)

– Institutions of Higher Education Accounts (cont.)

- Data Processing (WSU, SBCTC)
- Dedicated Local (UW, WSU, CWU, EWU, TESC, WWU, SBCTC)
- Federal Appropriations (WSU)
- Grants and Contracts (UW, WSU, CWU, EWU, TESC, WWU, SBCTC)



Higher Education Funding Sources (cont.)

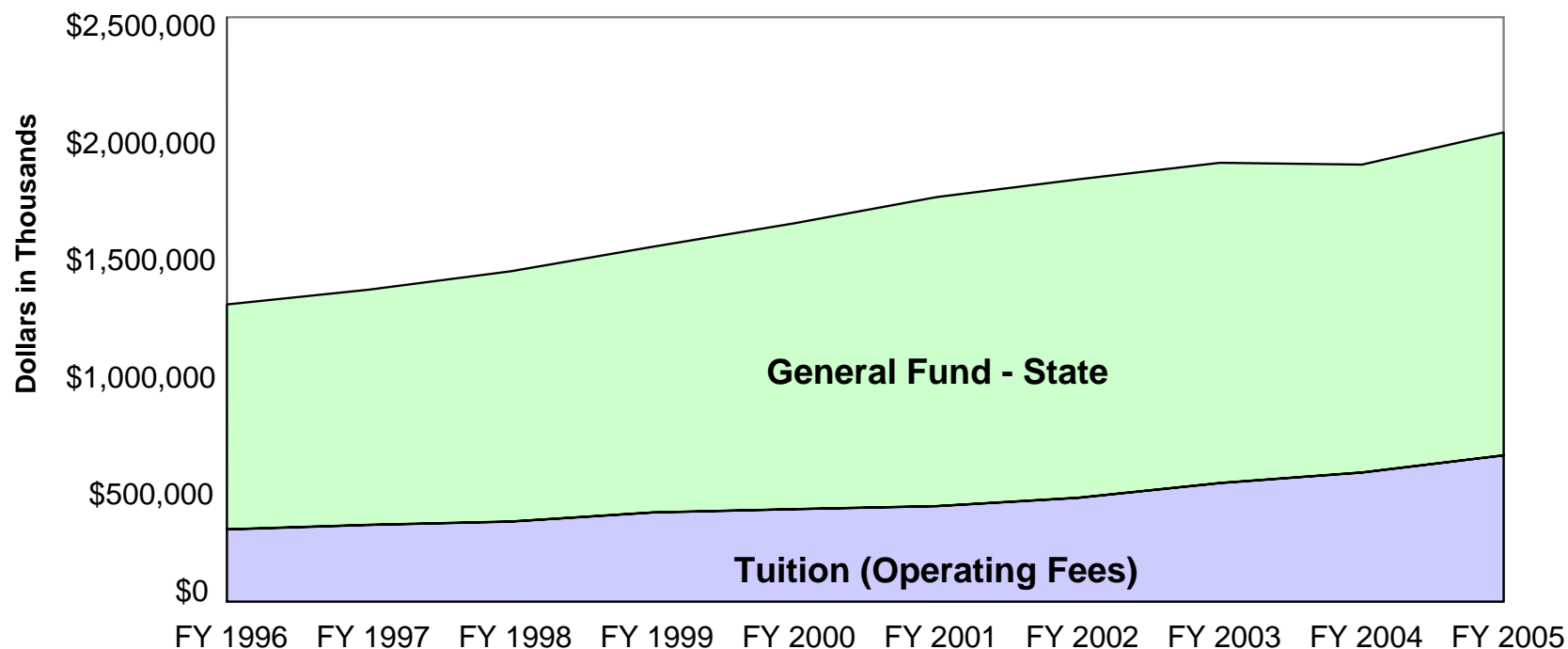
- **Institutions of Higher Education Accounts (cont.)**
 - Operating Fees (UW, WSU, CWU, EWU, TESC, WWU, SBCTC)
- **Health Professions Loan Repayment and Scholarship Program Account (HECB)**



Higher Education Funding Sources (cont.)

- Medical Aid Account (UW)
- Pension Funding Stabilization Account (all)
- State Educational Trust Fund Account
- University of Washington – University Hospital Account (UW)

Total Support for Public Higher Education Instruction Includes General Fund-State and Tuition



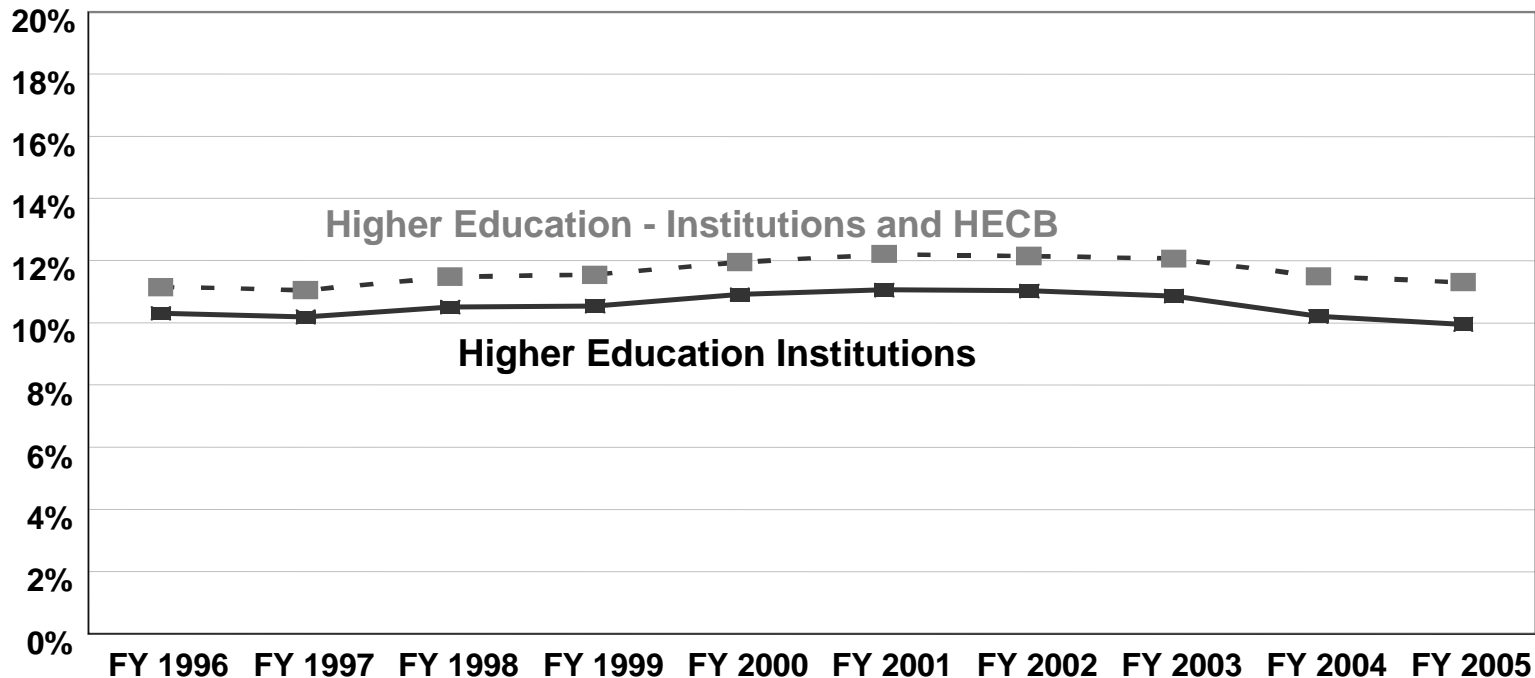
\$ in thousands	FY 1996	FY 1998	FY 2000	FY 2002	FY 2004	FY 2005
GF-State	\$961,198	\$1,071,401	\$1,221,612	\$1,362,554	\$1,316,392	\$1,381,305
Tuition	\$309,792	\$342,284	\$396,365	\$444,227	\$552,732	\$625,830



Higher Education Budget

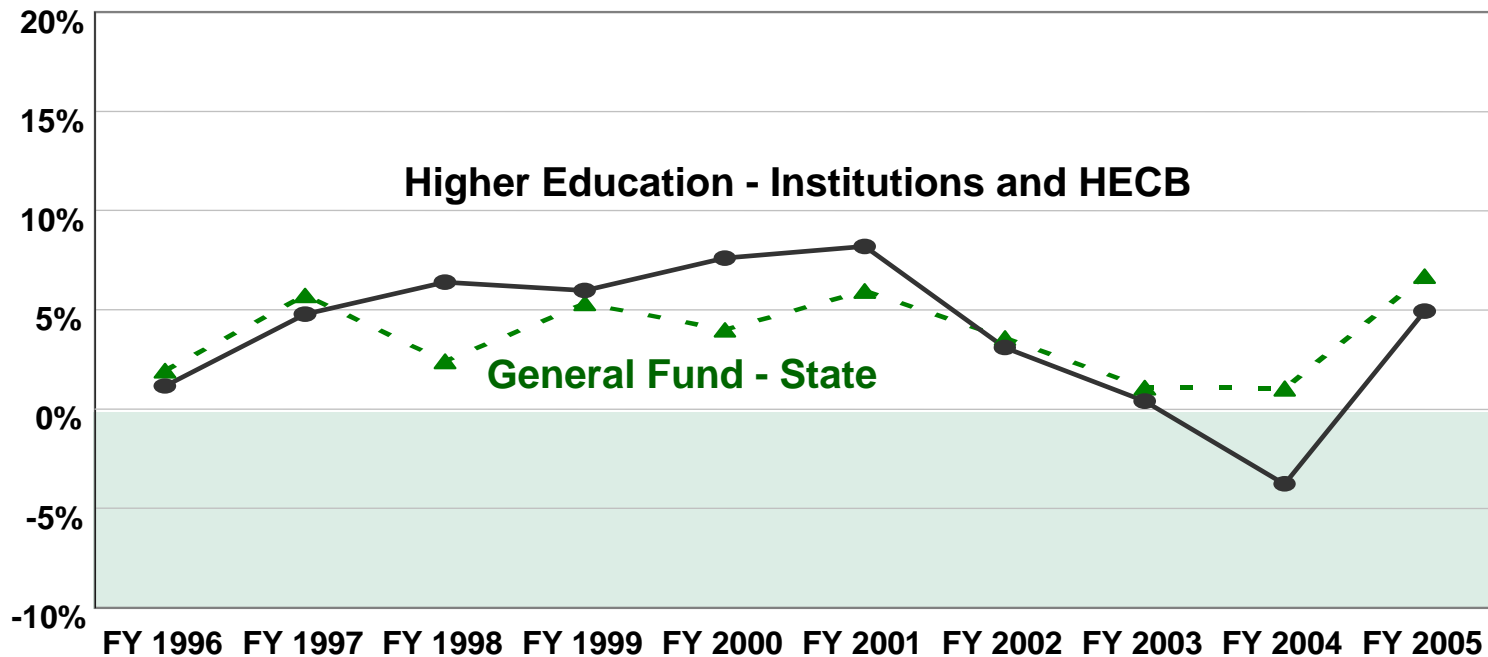
- Largest portion of the state General Fund operating budget that is not an entitlement or constitutional/contractual/federal requirement

Proportion of Total General Fund-State Budget Appropriated to Higher Education



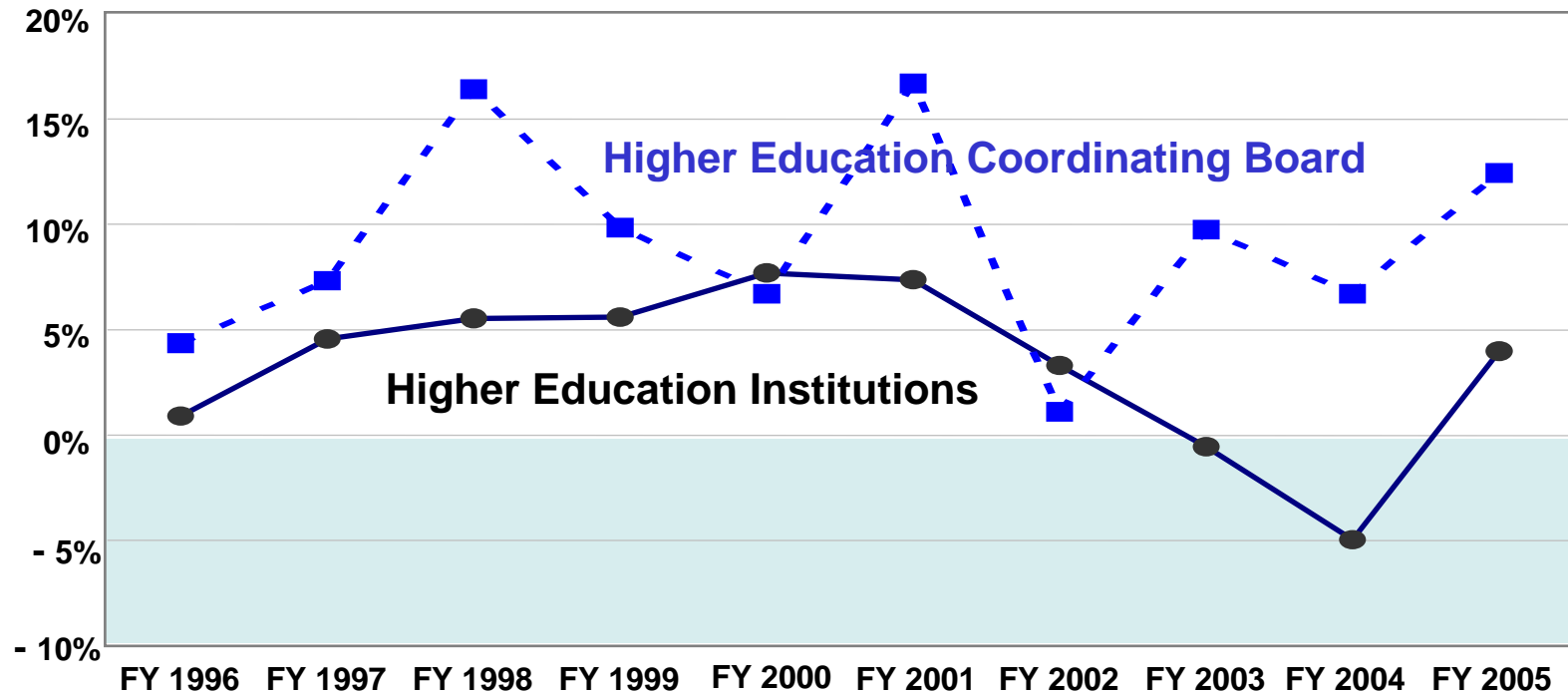
\$ in millions	FY 1996	FY 1998	FY 2000	FY 2002	FY 2004	FY 2005
Institutions	\$888.3	\$980.4	\$1,114.9	\$1,236.7	\$1,169.0	\$1,215.6
Institutions and HECB	\$961.4	\$1,071.8	\$1,221.6	\$1,364.0	\$1,317.8	\$1,382.7

Rate of Change is More Dramatic in Higher Education than the Total General Fund-State Budget



\$ in millions	FY 1996	FY 1998	FY 2000	FY 2002	FY 2004	FY 2005
GF-State	\$8,618	\$9,331	\$10,219	\$11,214	\$11,452	\$12,220
Higher Education	\$961	\$1,072	\$1,222	\$1,364	\$1,318	\$1,383

Percentage Change in General Fund-State Budget: Higher Education Coordinating Board and Higher Education Institutions



\$ in millions	FY 1996	FY 1998	FY 2000	FY 2002	FY 2004	FY 2005
HECB	\$72.9	\$91.0	\$106.7	\$125.9	\$147.4	\$165.7
Institutions	\$888.3	\$980.4	\$1,114.9	\$1,236.7	\$1,169.0	\$1,215.6



Higher Education Budget

- **Chiefly made up of instructional costs, state research funding, and public service funding**
 - Public service includes county extension services provided by WSU



Cost of Instruction

	Instructional Costs	All Other
UW	93.9%	6.1%
WSU	70.7%	29.3%
CWU	99.6%	0.4%
EWU	98.3%	1.7%
TESC	91.7%	8.3%
WWU	98.8%	1.2%
SBCTC	100.0%	0.0%



Timeline for Developing Operating and Capital Budgets



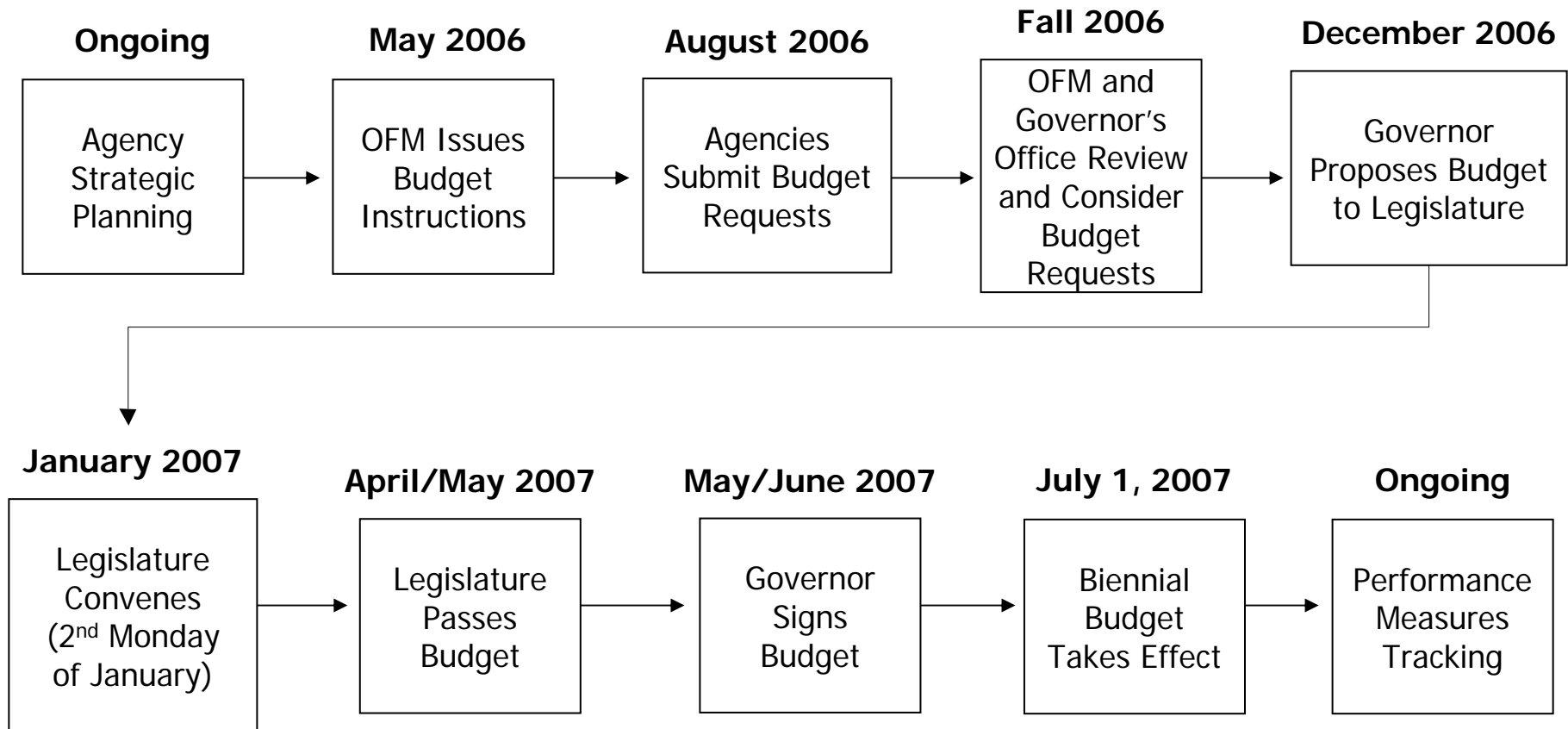
Timeline for 2007-09 Biennial Budgets

- **December 2005**
 - HECB sends budget guidelines to institutions
- **Summer 2006**
 - Agency/institution budget development
- **September 1, 2006**
 - Budget requests submitted to OFM and HECB
- **November 1, 2006**
 - HECB budget recommendations due to OFM



Timeline for 2007-09 Biennial Budgets (cont.)

- **December 20, 2006**
 - Governor releases budget proposal
- **January 1, 2007**
 - HECB budget recommendations due to Legislature
- **January 9, 2007**
 - Legislative session begins (105 days long)





Capital Budget: Process and Structure



How is the Capital Budget Structured?

- Zero-based budget for new appropriations
- No “carry-forward level” or “maintenance level”
- Funds are appropriated on a project-by-project basis
- Some projects continue into future biennia

Relationship Between Capital and Operating Budgets

- *They are interrelated*
 - *Proceeds of bond sales are spent under the capital budget*
 - *Operating budget pays for the debt service*
- **Decisions to expand or replace buildings have long-term effects**
- **Failure to adequately maintain facilities causes larger appropriations to fix building problems**



What is Funded in the Capital Budget?

- Land purchases
- Capital projects with a useful life of more than 13 years and a cost of more than \$25,000



Capital Projects Include:

- Planning, design and engineering studies for specific projects
- Construction costs of new buildings
- Major repairs, reconstruction and additions to buildings
- Utility, landscaping and infrastructure work
- Administrative costs directly related to a project
- Some equipment, but not “rolling stock” or maintenance supplies



"Gray Areas" Often Depend on Funding Sources

- Long-range development plans and feasibility studies**
- Miscellaneous administrative costs**
- Building repairs and maintenance**
- FTEs**



Higher Education Capital Policy Areas

- Access
- Preservation
- Mission



Higher Education Funding

- **Most of higher education construction is financed with bonds**
 - Approximately 73% of higher education's capital appropriations come from bond authorizations
- **Student fees and trust revenues provide less than 20%**

Sources: Key Facts About Higher Education, January 2006; LEAP historical data



Higher Education Funding Sources

- **Bonds**
 - General obligation, earmarked and reimbursement
- **Trust revenues**
- **Federal funding (grants)**
- **Local funds and matches**
- **Fees from tuition**



Certificates of Participation

- **Financing mechanism for lease-purchase of equipment and real estate**
- **Authorization is given in the capital budget**
- **Payments come from operating budget**
- **Not a general obligation of the state**
 - Subject to availability of funds
 - Interest rates are higher than for general obligation bonds
- **Debt does not fall under state debt limit**



Bond Capacity and Debt Limit

- Bonds are issued as needed
- Bond capacity is affected by interest rates, revenue and other factors
- Constitutional debt limit was adopted by voters in 1972
- Statutory debt limit was adopted by the Legislature in 1979 and amended several times to exclude certain revenues from the calculation of the statutory debt limit



Debt Limit and Debt Service

- **The constitutional and statutory debt limits are now essentially the same**
- **The debt limit restricts the amount of bonds that can be issued**
 - Treasurer cannot issue any bonds that would cause the debt service to exceed the debt limit in the future
- **Higher education is responsible for approximately 46.5% of the state's debt service**

Source: OFM Capital Plan by Fund Summary, 4/19/2006



Trust Revenues and Special Accounts

- Agriculture and Scientific School Trust (WSU) – 153,796 acres
- University Original and Transferred Trusts (UW) – 86,695 acres
- Metropolitan Tract (UW) – 11 acres in downtown Seattle



Trust Revenues and Special Accounts (cont.)

- Normal School Trusts (CWU, EWU, WWU and TESC) – 64,230 acres
- CTC Forest Reserve Account (community and technical colleges) – 3,458 acres

Source: Washington State Department of Natural Resources Constituent Relations, July 2005 data



Additional Funding for Higher Education Capital Budget

- **Fees as part of tuition**
 - Tuition building and maintenance fees
 - Student fees as part of tuition
- **Direct student fees for facilities**
 - E.g., dining and housing facilities
- **Mixed funding for mixed use facilities**



How Large is the Capital Budget?

- **It varies**

- Depends on available bond capacity and on moneys available from dedicated accounts, trusts, etc.

- **10-year range**

- \$3.35 billion in 1995-97
- \$5.86 billion in 2005-07



How Much of Capital Budget is Devoted to Higher Education?

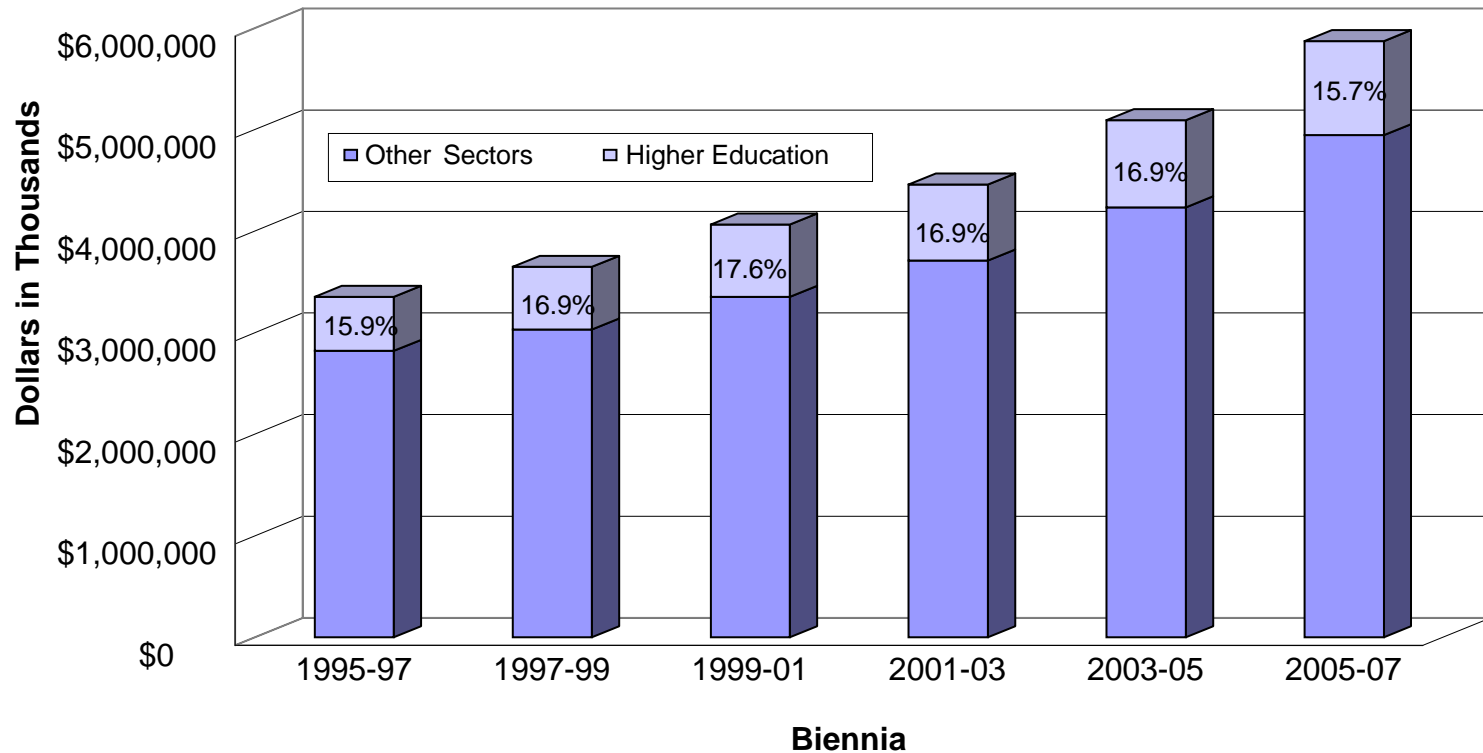
– It varies

- Almost half of state bonds go to higher education with a 10-year range of 41% in 2001-03 to 51% in 1999-01
- Depends on legislative priorities and competing needs for K-12, prison construction and emergencies

– 10-year range

- \$415 million in 1995-97 to \$956.6 million in 2005-07

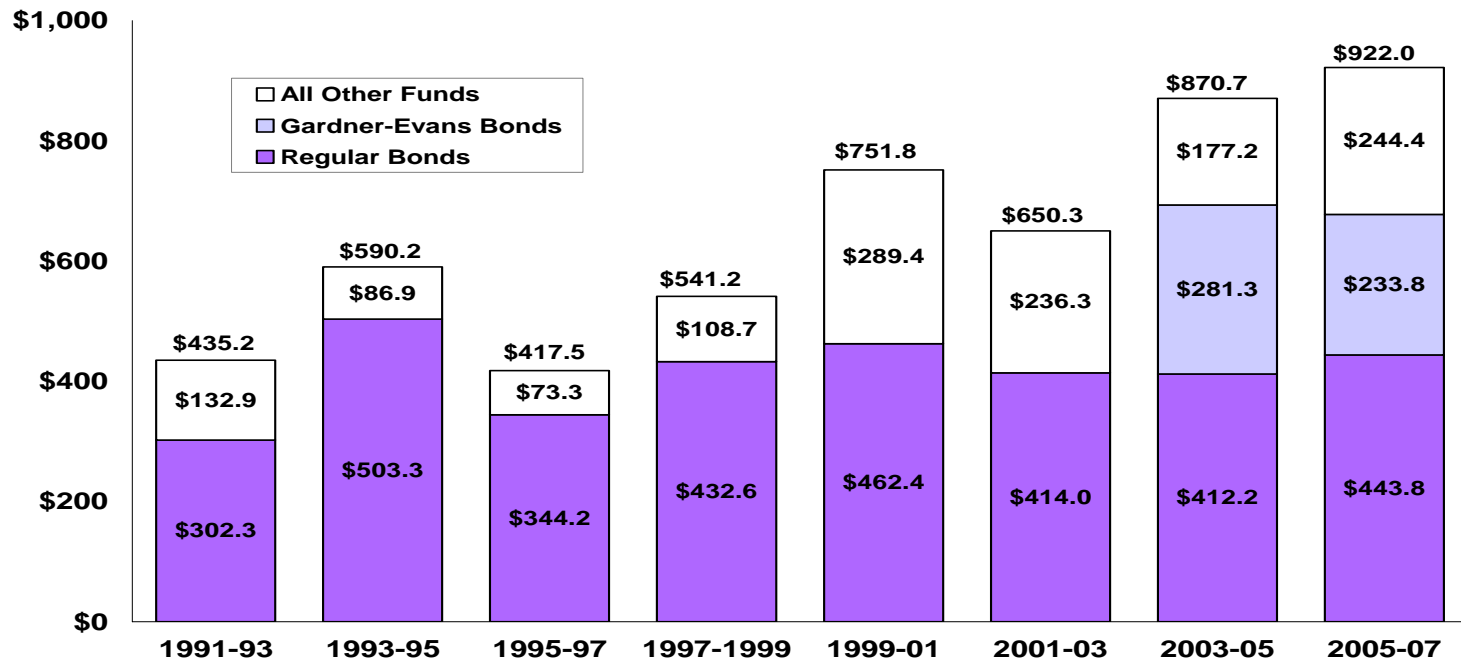
Higher Education as a Percentage of the Total Capital Budget



Source: LEAP Data, April 20, 2006



Higher Education Capital Appropriations (dollars in millions)



Source: Key Facts About Higher Education, January 2006



Policy Directions in Higher Education Capital Funding

– 1989-1995

- Upgrade and build new science and technology facilities and build the branch campus system

– 1995-97

- Continue the previous commitments and begin building for enrollment growth and preserve existing buildings

– 1997-99

- Increased capacity for a growing student population



Policy Directions (cont.)

– 1999-01

- Increase access by expanding branch campuses and modernize and construct elsewhere

– 2001-03

- Continue increases in access and emphasis on preservation



Policy Directions (cont.)

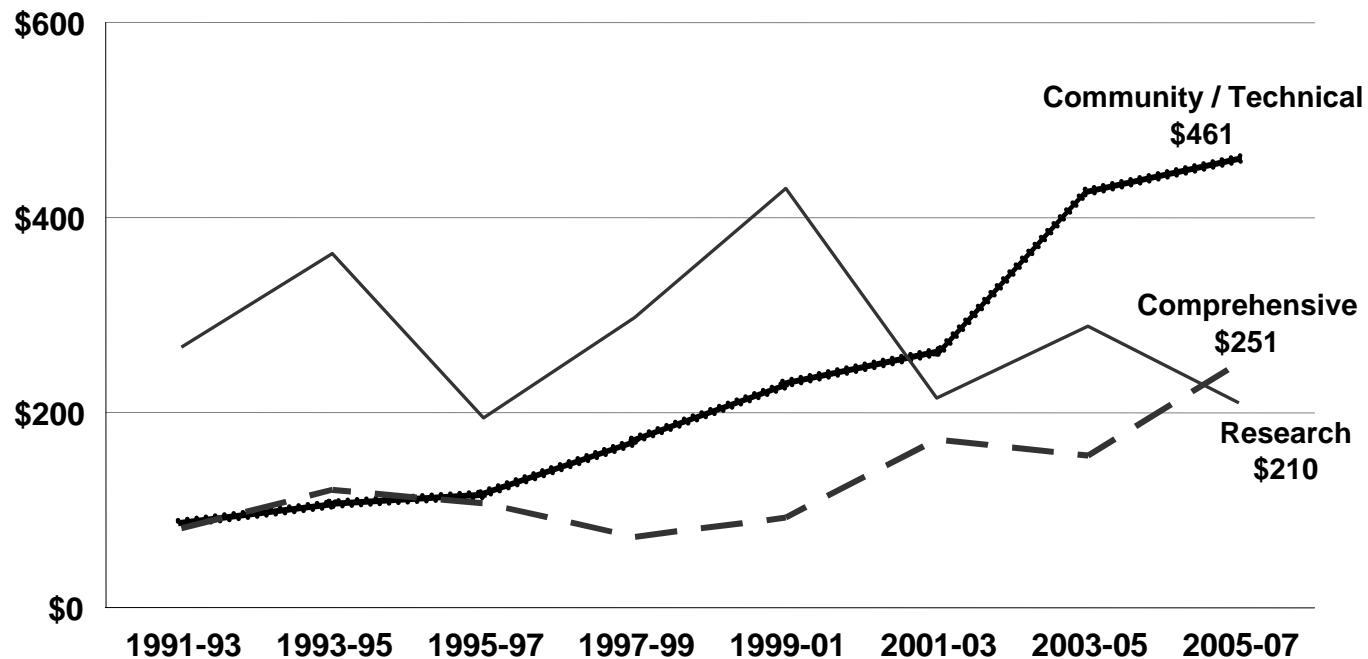
– 2003-05

- Gardner-Evans funding for additional projects above the previous funding levels and JLARC Report on Higher Education Facilities Preservation Study

– 2003 and beyond

- Prioritization of capital projects; separate lists for 4-year institutions and the community and technical colleges

Capital Funding Levels Have Varied by Sector (dollars in millions)



Source: Key Facts About Higher Education in Washington, January 2006



Capital Funding Levels (cont.)

- **Community and technical college construction has increased as a portion of the higher education capital budget, growing from less than one third in 1993-95 to about one half in 2005-07**

Source: LEAP Historical Data



Gardner-Evans Bonds

- **2003 Legislature enacted ESSB 5908, the “Building Washington’s Future Act”**
- **\$750 million in general obligation bonds over three biennia beginning in 2003-05**
- **Additional capital funding for higher education:**
 - Urgent preservation, replacement and maintenance needs that have been deferred
 - Simultaneously to provide new instruction and research capacity
 - Major preservation projects that renovate, replace or modernize facilities to enhance capacity/access



Gardner-Evans Bond Authorization Status

2003 Authorization	\$750,000,000
2003-05 Biennial Budget	(170,090,056)
2004 Supplemental Budget	(111,209,761)
2005-07 Biennial Budget	(233,763,957)
2006 Supplemental Budget	<u>(30,269,000)</u>
Balance	\$204,667,226



Capital Budget Trends Affecting Higher Education

- **Shift of expenses from operating to capital budget**
 - Maintenance, repair and associated FTEs
- **Availability of funding under the debt limit**
 - Current projected limits do not leave enough room for emergencies



Capital Budget Trends (cont.)

– **Competition for available funding**

- Unlike K-12 and prisons, higher education is not constitutionally mandated
- K-12 trust revenue funding has been supplanted with other funds since 1989, increasingly with bonds

– **Effect on tuition**

- Potential to shift a greater share of the cost of higher education capital to student fees

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